

~~TOP SECRET~~

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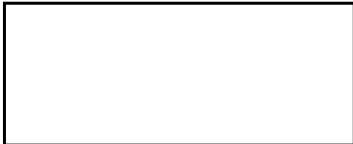
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FAR EAST

1. Chiang Kai-shek concerned over American aid to Japan:

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Chiang Kai-shek, in recent conversations with American visitors to Formosa, has raised questions about Japanese rearmament and military aid to Indochina. He was obvi-

ously concerned that aid to other Far Eastern nations might increase more rapidly than that to the Nationalist government.

In the opinion of Ambassador Rankin, Chinese officials fear that American interest in Formosa is decreasing, that Nationalist China may lose prestige by being treated as Japan's inferior, and that the United States cannot assure that Japan will not again become an aggressor.

Comment: Nationalist leaders have long been apprehensive that American interest will be concentrated on other Far Eastern governments to the detriment of Formosa's security and Nationalist hopes of returning to the mainland. This concern has been stimulated recently by South Korean president Rhee's statements that Japan has aggressive designs.

SOUTHEAST ASIA

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2. French see Viet Minh move into Laos as effort to improve negotiating position:



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Comment: French officials in Indochina have recently argued, though without convincing evidence, that the Viet Minh has an overriding desire for a negotiated peace. The Viet Minh's strategy for the past three years has appeared to be that of expanding the territory under its control without seriously risking its regular forces.

3. French-Vietnamese situation in Tonkin delta worsening:

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Sabotage and terrorism in the Tonkin delta are increasing, according to the American consul in Hanoi. On 31 January a troop train en route to Hanoi from Haiphong was blown up, and five DC-3's were sabotaged at an airfield near Haiphong. The Tonkin commander had previously expressed concern that the sending of reserve parachute battalions to central Laos had weakened his air base security.

A ranking French official in Tonkin believes the Viet Minh will undertake a still wider program of terrorism, particularly against occidentals, and will intensify efforts to sabotage critical installations. At the same time, the enemy will step up its more conventional military activities throughout the delta.

Comment: The French mobile reserve in the delta, already reduced from 45 battalions to 19, faces the prospect of a further drain to meet the developing threat in northern Laos. The Viet Minh, on the other hand, has since mid-January increased its regular strength in the delta from 9 to 18 battalions and in addition has some 50,000 irregulars there.

SOUTH ASIA

4. India reportedly may act unilaterally to end Kashmir stalemate:

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The American embassy reports that on 3 February the government of Indian-held Kashmir will probably ratify the Indo-Kashmiri agreement of

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July 1952 formalizing many of India's relationships with that state. The embassy adds that there is a "strong possibility" that action will also be taken to ratify Kashmir's accession to India, to argue that this eliminates the need for a plebiscite, and to pave the way for withdrawal of the Kashmir case from the UN Security Council.

Comment: India probably will make no move to withdraw the Kashmir case from the Security Council, since it recognizes that both Pakistan's and the council's consent would be required to do so legally. It is likely either to beg the question of a plebiscite or, as in the past, indicate that all decisions are temporary, pending a final settlement.

Ratification of the agreement would not change the existing stalemate on Kashmir. Both India and the Kashmiri government have consistently maintained that Kashmir is an integral part of India, and India has already taken many steps to consolidate its position there.



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7. Egypt willing to compromise on Suez transit:

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Abdul Razek, Egyptian UN delegate, told an American diplomat on 1 February that Egypt is not against "free passage of the Suez Canal" and is anxious to prove "its good faith." He asked American support for postponement of Security Council consideration of Israel's complaint against restrictions on Suez shipping until Egypt can prepare its case.

The Egyptian foreign minister in Cairo told Ambassador Caffery on 30 January that Egypt would suspend its recent decree extending its blockade if Israel would drop its charges in the Security Council.

Comment: Egypt has never complied with the Security Council resolution of September 1951 calling for free passage of all shipping through the Suez Canal. Its present attitude apparently stems from a desire to avoid international debate which could complicate its efforts to reach a settlement with Britain.

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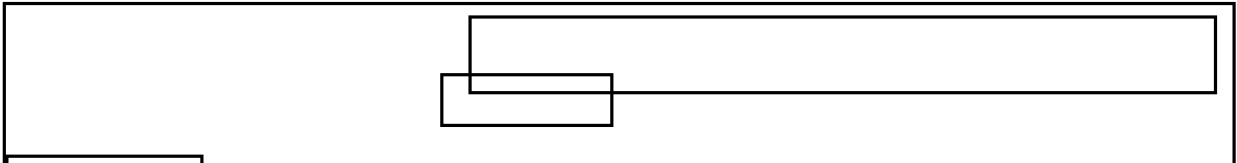
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EASTERN EUROPE

8. Yugoslav trade agency reportedly prepared to arrange East-West deals:

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now in a position to arrange transit trade with Soviet bloc countries via Yugoslavia.

Comment: A high Foreign Ministry official stated in an interview on 31 December that if the USSR proposed the establishment of trade relationships between Yugoslavia and the Soviet bloc, the Yugoslavs would approach such a proposal with cautious optimism and with the hope that resumption of nonstrategic trade would relieve international tension.

It is possible that this report reflects an actual shift in Yugoslavia's economic policy, which has heretofore allowed no trade with the Soviet bloc.

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